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Economic Indicators Show Signs of Strong Economic Growth ***Jobs and Growth Tax Bill Delivering Powerful Boost***

Dear Colleague:

Attached is the latest information on how tax relief provided by Congress has helped support economic growth. I hope that you will find it useful during the District Work Period.

Best regards,



Bill Thomas
Chairman

Committee on Ways and Means

Economic Indicators Show Signs of Strong Economic Growth *Jobs and Growth Tax Bill Delivering Powerful Boost*

Early signs that the economy is primed to take off:

- The estimate for second quarter growth, although tepid, exceeded all expectations
- Labor market data has improved markedly over the last few weeks
- The stock market rallied 25% thus far in 2003
- Business investment has begun to improve

Real economic growth in the second quarter of this year was 2.4 percent. The composition of this growth suggests even more robust expansion for the remainder of this year: a strong investment spending increase and a decrease in business inventories. Factories will put these new machines to work in the current quarter to rebuild inventory stocks. This will likely require new skilled labor as the production line ramps up activity.

The unemployment rate fell in July and fewer workers are claiming unemployment benefits. Although the manufacturing sector has yet to recover, there were sizable employment gains in the services sector, particularly temporary help services. Further positive news for the labor market is that the number of jobless claims has remained below the critical 400,000-level for two consecutive weeks. The more stable 4-week moving average has declined sharply as well. These factors all point to a much-needed recovery in the labor market.

The strong stock market rally has been sustained. After rising 25% in just 3 months the market has maintained its higher valuation since mid-June. Strong corporate profit reports, growing business confidence and more positive economic news should further lift the market in the coming months.

A number of economic indicators and surveys are suggesting that business investment is rebounding. The Advanced Durable Good Orders report jumped 2.1% in July, investment in computers and related equipment jumped 11% in the second quarter – twice the pace from the quarter before, industrial production increased again in July and the well-regarded ISM Index of manufacturing activity increased to 51.8, suggesting growth in this sector. Furthermore, a number of economists and market watchers have commented on the improving investment outlook:

1. "Following a moderate contraction in the first quarter, business investment spending is turning. Growth is still tepid, but is expected to accelerate over the next several quarters, supported by improving corporate profits, friendlier capital markets, a developing replacement cycle, and new tax incentives." – James Glen, Economy.com, July 24, 2003.
2. "I think pent-up demand for capital goods is stirring, and Corporate America is now poised to boost capital spending significantly." – Richard Berner, Morgan Stanley, July 28, 2003.
3. "Recent trends point to some improvement in US output, both of hard goods overall and business equipment in particular." – Bill Dudley, Goldman Sachs, July 25, 2003.

Jobs and Growth Tax bill a strong driver supporting enhanced economic growth

Paychecks are growing as the lower tax rates take effect. 91 million taxpayers will receive, on average, a tax cut of \$1,126 in 2003 and new withholding tables mean that paychecks will be bigger. The increased child tax credit means that 25 million families are receiving checks worth \$13 billion in the next couple of weeks. \$20 billion in state aid is on its way to help states through hard fiscal times.

U.S. corporations are responding quickly to the lower tax rate on dividends. Already 210 major U.S. corporations have increased their dividend payment since the President signed the Jobs and Growth bill into law on May 28, 2003. More money in the hands of the roughly 85 million households that own stocks will help support consumer spending and lead to better allocation of investments. Seniors in particular will benefit as they are more heavily invested in dividend paying stocks. The decreased tax on capital will further encourage firms to investment in equipment. Small businesses receive an additional benefit by the increase amount of investment that can be expensed each year from \$25,000 to \$100,000.

Benefits of the Jobs and Growth Tax bill are long-term as well. In addition to the short-term boost from passage of the Jobs and Growth tax bill and the quick change in corporate behavior underway, this bill will, over time, lead to a significant increase in investment, job creation and wages paid to workers.